

BILL # SB 1105

TITLE: property valuation; common areas

SPONSOR: Harper

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Under current law, for a property to be considered a “common area,” all residential property owners in the development “must be required to be and must actually be” members of a nonprofit homeowners’ association, community association, or corporation. SB 1105 would change this requirement by providing that residential property owners must only be “offered” membership in the association or corporation.

Land, buildings, and improvements that qualify as common areas are valued at \$500 per parcel (A.R.S. § 42-13403). Properties that do not meet the criteria for common area are valued using standard appraisal techniques. The full cash value of such property is synonymous with market value (A.R.S. § 42-11001).

Estimated Impact

SB 1105 has an unknown cost. SB 1105 would reduce the local property tax base, which will cause the state share of the K-12 funding formula to increase. We are currently aware of a single nonprofit community center that is seeking to be re-designated as a “common area.” It seems probable, however, that the proposed change could apply in numerous instances.

Analysis

In order to determine the impact on the state General Fund, we would first need to establish the number of properties that would qualify as common areas under SB 1105. Next, we would have to estimate the total amount of net assessed value (NAV) that would be lost for such properties. Since common area parcels have a value of only \$500, properties newly designated as such presumably have a higher value under their current designation. As a final step in the calculation, we would multiply the estimated NAV loss by the average Qualifying Tax Rate (QTR) and County Equalization Rate (CER) in order to determine the increased cost for K-12 basic state aid funding.

To obtain such data, we contacted the county assessors in Maricopa and Pima Counties. However, neither of these assessors was able to identify properties that would be re-classified as common areas under SB 1105. Instead, we were limited to residential parcel information furnished by a nonprofit community center in the city of Surprise, whose property would be re-classified as a common area if this legislation were enacted. (The community center is a recreation club that offers membership to its residents.)

Public records from the Maricopa County Assessor’s Web site show that the aforementioned property has a full cash value of \$250,000 and a limited property value of \$182,500 in tax year 2004 (or FY 2005 for state budgetary purposes). Since this parcel is currently valued as a Class 2 property, it has a secondary NAV of \$40,000 and a primary NAV of \$29,200. Re-classifying this parcel as a common area will have a minimal impact on the state General Fund.

While the Maricopa County Deputy Assessor acknowledged that this bill is difficult to estimate, he also cautioned that it is not unlikely that many property owners will pursue the common area valuation status should this bill become law.

Local Government Impact

Cannot be determined.